HOUSING MARKET OUTLOOK

Charlottetown - Date Released: Fall 2006

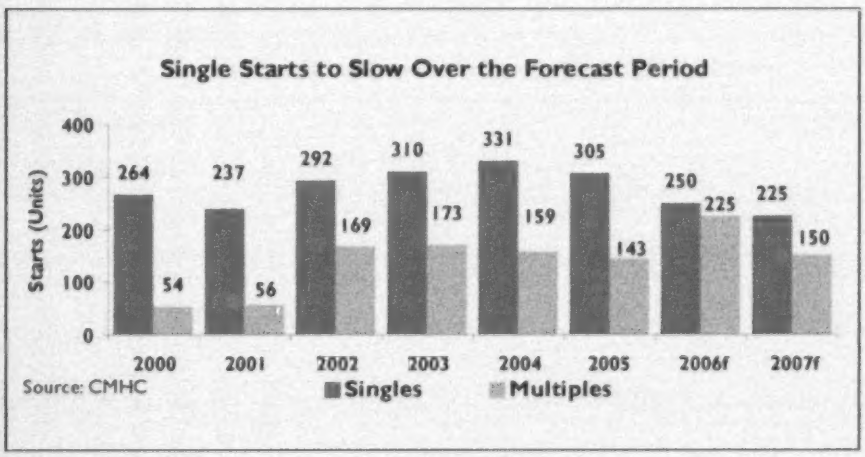
Migration and Interest Rates to Keep the Housing Market Stable

A combination of low interest rates, moderate employment growth, and positive migration are expected to keep the Charlottetown housing markets healthy for the remainder of 2006 and into 2007.

Interest rates have remained low over the past few years and are not expected to increase significantly over the forecast period. Although a slight increase is forecast in 2007, it is not expected to be enough to dissuade potential homebuyers.

Employment in the capital region is expected to exceed the record level of almost 31,500 people working which was set in 2005. During the first nine months of 2006, full-time employment rose by over 1,500 jobs when compared to 2005, while part-time employment posted a moderate decrease from last year's level. For the first three quarters in 2006, the increase in employment has come mainly from the construction, service and agriculture sectors.

Positive net-migration is also contributing to strong demand for housing in the capital region. According to Statcan's 2005 Tax Filer Data, the Queen's County area, which encompasses Charlottetown, recorded positive net-migration of over 1,700 people from 1998 to 2004. When these numbers are examined more closely, two trends become evident. The first being that the majority of the people moving to Queens County have come from elsewhere on the Island. This emphasizes the fact that PEI is no exception to the trend of urbanization. Secondly, the majority of these people fall into either the 25-44 (young families) or 45-64 (baby boomer) cohorts, both of which are likely to be active in the local housing market.



Source: CMHC

As a result of the aforementioned variables, the housing market in Charlottetown is expected to perform at an above average level over the forecast period. With the trends of in-migration and low interest rates expected to persist, the construction of semi-detached units for the homeownership market and the sale of existing homes will fare particularly well during the next year.

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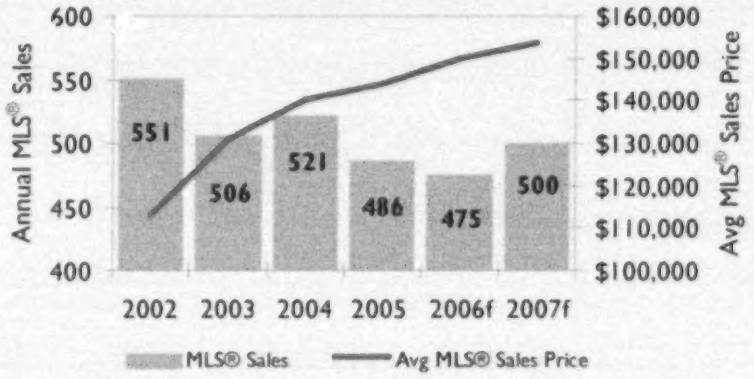
MLS® Sales Activity to Remain Stable

The number of residential MLS® transactions in the Charlottetown area has been in the range of 500 units per year since 1998, and no major change is anticipated over the forecast period. The market is characterized by rising prices and a diminished number of listings at the lower price points. As mentioned above, employment growth in the area remains remarkably resilient and will help fuel sales over the forecast period. One of the main factors that will keep the resale market strong over the forecast period is the rising cost of new homes. As new home price growth, which has been fuelled by mounting land, labour and material costs, continues to rise at a faster pace than the average price of existing homes, the price gap between the two will widen further. The eventual outcome is that potential home buyers may opt for an existing home due to the difference in price. New listings have also been on the rise due to current homeowners selling their properties to realize the profits from the recent appreciation of their homes and with this, move up to something larger or more elaborate. A rise in the number of new listings will provide potential homebuyers with greater choice. Expect the average MLS® sales price to grow by 4.5 per cent in 2006 before reaching a more moderate 2.0 per cent increase in 2007.

Average MLS® Sale Price to Rise Over the Forecast Period



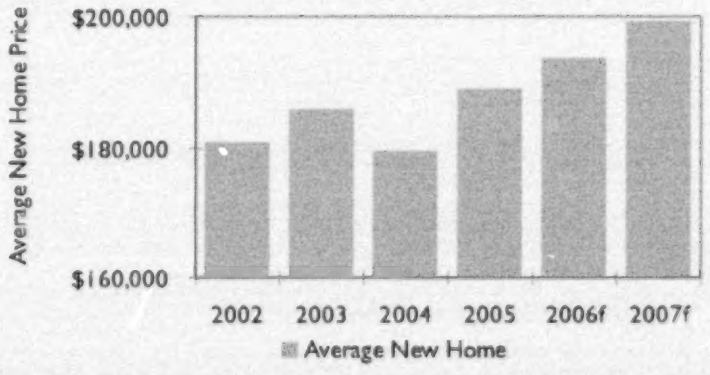
Source: PEI Real Estate Board f: CMHC Forecast

Costs and Type of Homes to Push New Home Prices up in 2006

New home construction in the Charlottetown CA during the first nine months of 2006 reached 388 units, an increase of 65 units when compared to the previous year. The substantial rise in multiple starts, particularly apartment style units, is the reason for the increased level of activity. As expected, single starts have continued to recede this year from the fifteen year high set in 2004. This decrease can be partially attributed to rising new home prices which have caused some potential buyers to opt for the resale market. Also, recent increases in interest rates, although marginal, when combined with the rise in cost of new homes have now pushed the monthly carrying costs even higher, further impacting affordability for some potential homeowners, particularly first-time buyers.

Notwithstanding, the rising cost of new single-detached home, many builders realized that potential buyers, especially first-time buyers, prefer to purchase a new home. In an effort to tap into this market, there has been a significant rise in the number of new semi-detached units for the home-ownership market. In fact, just five years ago this market was insignificant in Charlottetown, yet it now accounts for almost 25 per cent of the new homeownership units built in a given year. As the cost of construction continues to rise, it is expected that

Average New Home Price Expected to Increase



more buyers will turn to the semi-detached market which allows them to purchase a new home that fits their budget.

Despite the expected decline in single-detached homes over the next two years, the level of activity will still remain well above the 10-year average. One can also expect to see larger, more elaborate and more expensive homes built over the forecast period, thus driving up the average new home price in the area. The expected rise in new home prices will also be a result of the increased costs associated with labour, land and materials, which is measured by the New House Price Index (NHPI). The NHPI in the Charlottetown area in 2006 and 2007 is forecast to advance by 2.5 and 3.0 per cent respectively. This means that it will cost 2.5 per cent more to build the exact same house this year than in the previous year. Expect the average new home price to reach $187,000 and $192,000 in 2006 and 2007 respectively.

FORECAST SUMMARY

Greater Charlottetown Area

	2002	2003	2004	2005	2006*	2007*	% chg
NEW HOME MARKET							
Starts							
Total	461	483	490	448	475	375	6.0%
Single-family	292	310	331	305	250	225	-18.0%
Multiple/Rental	169	173	159	143	225	150	57.3%
Average New House Price	$180,973	$185,996	$179,488	$188,741	$194,000	$199,000	2.8%
Complete and Unoccupied (Dec)	8	19	14	12	14	10	
RESALE MARKET							
MLS® Sales	551	506	521	486	475	500	-2.3%
Average Sales Price	$112,986	$131,013	$139,988	$144,036	$150,000	$153,750	4.1%
RENTAL MARKET							
Vacancy Rate (October)	2.1%	3.4%	4.1%	4.4%	4.5%	4.0%	
Average Rents (All units)	$539	$566	$588	$618	$650	$660	
Rental Rate (annual % change)		5.01%	3.89%	5.10%	5.18%	1.54%	
ECONOMIC OVERVIEW							
Mortgage Rate (3 yr. term)	6.28%	5.82%	5.65%	5.81%			
Mortgage Rate (5 yr. term)	7.02%	6.39%	6.23%	6.28%			

* CMHC Forecast

Source: CMHC, Statistics Canada, PEI Real Estate Association

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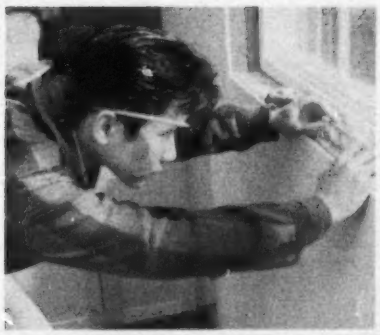
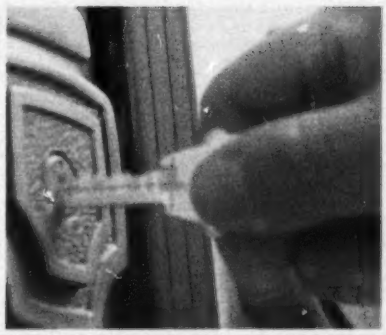

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